



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 21, 2001

S. 295

Small Business and Farm Energy Emergency Relief Act of 2001

As ordered reported by the Senate Committee on Small Business on February 28, 2001

SUMMARY

S. 295 would expand certain loan programs administered by the Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA). Under current law, SBA provides loans to small businesses that suffer the effects of a natural disaster, and USDA provides similar loans to family farms. S. 295 would expand these two programs to authorize loans to small businesses and family farms to recover from economic injuries resulting from sharp and significant increases in the price of electricity, heating oil, natural gas, propane, or kerosene. The bill would authorize SBA and USDA to provide loans for this purpose for two years.

CBO estimates that implementing S. 295 would cost \$51 million over the 2002-2006 period, subject to appropriation of the necessary amounts. CBO estimates that enacting S. 295 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. S. 295 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 295 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development) and 350 (agriculture).

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Baseline Spending Under Current Law						
Estimated Authorization Level ^a	190	197	201	207	212	219
Estimated Outlays	220	210	200	206	211	218
Proposed Changes						
Estimated Authorization Level	0	24	24	1	1	1
Estimated Outlays	0	6	27	13	4	1
Spending Under S. 295						
Estimated Authorization Level	190	221	225	208	213	220
Estimated Outlays	220	216	227	219	215	219

a. The 2001 level is the amount appropriated for that year for SBA's Disaster Loan Program and the USDA's Emergency Loan Program. The amounts shown for 2002 through 2006 are CBO baseline levels that reflect annual increases for anticipated inflation.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 295 will be enacted near the end of fiscal year 2001, and that SBA and USDA would begin offering these kinds of loans in the first quarter of fiscal year 2002. In addition to the administrative costs of providing more loans, the cost of implementing S. 295 would depend on two factors: (1) the amount of money that the government would lend to small businesses and family farms—the program level, and (2) the riskiness of the loans provided—the subsidy rate.

Program Level

In 2000, SBA provided over 28,000 disaster loans to homeowners and small businesses. Of this total, about 4,000 loans were to small businesses to recover from physical damages caused by natural disasters, and about 1,000 of those loans were to cover the cost of economic injuries suffered by small businesses due to disasters. S. 295 would authorize an indefinite number of additional loans to cover economic injuries related to the prices of certain fuels. Based on information from the SBA, CBO estimates that expanding the SBA program to cover economic injuries to small businesses that are caused by high energy prices would greatly increase the number of SBA loans. We estimate the agency would make an

additional 10,000 new loans each year—about a one-third increase over the present number of loans. Based on information from USDA, CBO estimates that expanding the USDA program to cover energy-related costs would add another 5,000 loans per year.

Under current law, SBA loans to cover the cost of economic injuries average about \$5,000 per borrower, and we assume that loans provided under S. 295 would be the same size. The actual number of loans provided under the bill should be either higher or lower than CBO's estimate. Similarly, the average loan size could be either higher or lower than we assume. But if there are fewer loans under the bill than we estimate, it is likely that the average loan size would be greater than \$5,000 because many borrowers are likely to rely on such loans to invest in physical assets that could help cover the cost of energy bills.

In total, CBO estimates that SBA would provide about \$50 million in new loans in both 2002 and 2003, and USDA would provide another \$25 million in loans in each of these years. These estimates are uncertain, and they are based on SBA's anticipated demand for energy-related loans. The actual number and value of loans made under the bill would depend on the guidelines that SBA and USDA develop. These guidelines would specify the qualification requirements for small businesses applying for a loan, how the borrowed money could be used, and the exact terms of the loans.

Subsidy Rate

The Federal Credit Reform Act requires an upfront appropriation for the subsidy costs of credit programs. The subsidy cost of this proposed program would be the estimated long term cost to the government of these loans, calculated on a net present value basis, excluding administrative costs.

Under current law, the SBA program has an estimated subsidy rate of about 17 percent. This rate includes loans to homeowners to cover the cost of physical damages caused by natural disasters, loans to business owners to cover the cost of such physical damages, and loans to business owners to cover the cost of economic injuries caused by natural disasters. Those loans to small businesses have an estimated subsidy rate of 20 percent. Of these three types of loans, the economic injury loans involve the greatest amount of risk. In addition, because business owners generally can foresee higher energy prices better than natural disasters, CBO expects that loans provided under S. 295 would entail more risk than loans currently provided by SBA. CBO estimates that loans provided by SBA to cover economic injuries related to energy prices would involve a subsidy rate of about 20 percent.

The USDA loan program currently has an estimated subsidy rate of 25 percent, and CBO estimates that the loans provided by USDA to cover economic injuries related to energy prices would not affect this subsidy rate.

Administrative Costs

Based on information from SBA, CBO estimates that the cost of providing these loans over the authorized two-year period would equal about 10 percent of the program level. CBO estimates that it would cost an additional \$1 million each year to administer the existing loans after the two-year authorization period ends, or a total of \$11 million over the 2002-2006 period, subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 295 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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